CHINA YURUN FOOD GROUP LIMITED
中國雨潤食品集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1068)

ANNUAL RESULTS ANNOUNCEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

FINANCIAL HIGHLIGHTS

	2011 *(HK$ in million)*
Turnover	**32,315**
Core net profit#	**1,071**
Profit attributable to equity holders of the Company	**1,799**
Diluted earnings per share *(HK$)*	**0.985**

Core net profit refers to profit attributable to equity holders excluding government subsidies, negative goodwill and foreign exchange gains.

SUMMARY OF RESULTS

The board of directors (the "Board") of China Yurun Food Group Limited ("Yurun Food" or the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2011 (the "Review Year") together with the comparative figures of the corresponding period in 2010 as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Turnover	3	**32,315,193**	21,472,747
Cost of sales		**(29,530,416)**	(18,375,204)
Gross profit		**2,784,777**	3,097,543
Other operating income	4	**703,312**	966,171
Distribution expenses		**(757,907)**	(626,710)
Administrative and other operating expenses		**(788,065)**	(463,080)
Results from operating activities		**1,942,117**	2,973,924
Finance income		**138,585**	121,544
Finance costs		**(174,816)**	(169,179)
Net finance costs		**(36,231)**	(47,635)
Share of losses of associates (net of income tax)		**(299)**	(447)
Share of loss of a jointly controlled entity (net of income tax)		**(114)**	–
Profit before income tax	5	**1,905,473**	2,925,842
Income tax expense	6	**(99,532)**	(189,113)
Profit for the year		**1,805,941**	2,736,729
Attributable to:			
Equity holders of the Company		**1,799,088**	2,728,176
Non-controlling interests		**6,853**	8,553
Profit for the year		**1,805,941**	2,736,729
Earnings per share			
Basic	8(a)	**HK$0.989**	HK$1.565
Diluted	8(b)	**HK$0.985**	HK$1.551

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2011

	Note	**2011** **HK$'000**	2010 HK$'000
Profit for the year		**1,805,941**	2,736,729
Other comprehensive income for the year (after reclassification adjustments)	*9*		
Foreign currency translation differences for foreign operations		**553,647**	438,973
Net movement in fair value of available-for-sale financial assets recognised during the year		**–**	(55)
		553,647	438,918
Total comprehensive income for the year		**2,359,588**	3,175,647
Attributable to:			
Equity holders of the Company		**2,350,473**	3,165,400
Non-controlling interests		**9,115**	10,247
Total comprehensive income for the year		**2,359,588**	3,175,647

CONSOLIDATED BALANCE SHEET
At 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment		**12,635,472**	8,037,446
Investment properties		**214,463**	215,862
Lease prepayments		**3,281,131**	2,159,309
Goodwill		**93,847**	90,054
Interest in an associate		**5,381**	2,466
Interest in a jointly controlled entity		**24,069**	23,204
Non-current prepayments		**852,209**	952,867
Deferred tax assets		**22,654**	20,455
		17,129,226	11,501,663
Current assets			
Inventories		**1,453,415**	1,268,316
Other investments		**–**	1,184
Current portion of lease prepayments		**71,785**	47,281
Trade and other receivables	*10*	**1,466,105**	1,189,686
Income tax recoverable		**20,269**	1,233
Pledged deposits		**178,735**	227,655
Time deposits		**90,866**	151,280
Cash and cash equivalents		**5,068,812**	5,972,385
		8,349,987	8,859,020
Current liabilities			
Bank loans		**5,141,227**	3,151,495
Finance lease liabilities		**562**	516
Trade and other payables	*11*	**3,014,529**	1,817,121
Income tax payable		**33,500**	29,559
		8,189,818	4,998,691
Net current assets		**160,169**	3,860,329
Total assets less current liabilities		**17,289,395**	15,361,992

	Note	2011 HK$'000	2010 HK$'000
Non-current liabilities			
Bank loans		**784,798**	529,798
Finance lease liabilities		**177,539**	170,869
Deferred tax liabilities		**155,311**	178,827
		1,117,648	879,494
NET ASSETS		**16,171,747**	14,482,498
EQUITY			
Share capital	*12*	**182,276**	181,116
Reserves		**15,926,506**	14,255,593
Total equity attributable to equity holders of the Company		**16,108,782**	14,436,709
Non-controlling interests		**62,965**	45,789
TOTAL EQUITY		**16,171,747**	14,482,498

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2011

	2011	2010
	HK$'000	*HK$'000*
Cash generated from operations	**2,668,612**	3,269,602
Finance costs paid	**(249,700)**	(143,681)
Income tax paid	**(147,117)**	(139,570)
Net cash generated from operating activities	**2,271,795**	2,986,351
Net cash used in investing activities	**(4,812,293)**	(3,499,222)
Net cash generated from financing activities	**1,431,242**	3,858,076
Net (decrease)/increase in cash and cash equivalents	**(1,109,256)**	3,345,205
Cash and cash equivalents at 1 January	**5,972,385**	2,465,128
Effect of exchange rate fluctuations on cash held	**205,683**	162,052
Cash and cash equivalents at 31 December	**5,068,812**	5,972,385

Notes:

1. REVIEW OF ANNUAL RESULTS

The annual results have been reviewed by the audit committee of the Company.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2011 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditors on this announcement.

2. CHANGES IN ACCOUNTING POLICIES

The International Accounting Standards Board has issued a number of amendments to International Financial Reporting Standards ("IFRSs") and one new Interpretation that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Company's consolidated financial statements:

– International Accounting Standard ("IAS") 24 (revised 2009), *Related party disclosures*

– Improvements to IFRSs (2010)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. The impacts of these developments are discussed below:

– IAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. IAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

– *Improvements to IFRSs (2010)* omnibus standard introduce a number of amendments to the disclosure requirements in IFRS 7, *Financial instruments: Disclosures*. The disclosures about the Group's financial instruments in the annual report have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous years.

3. TURNOVER AND SEGMENT INFORMATION

Turnover represents the sale value of goods sold to customers, excluding value added tax or other sales taxes and is after allowance for goods returned and deduction of any trade discounts and volume rebates.

The Group manages its businesses by divisions, which are organised by different product lines. In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker ("CODM"), the Group has identified the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

Chilled and frozen meat :	The chilled and frozen meat segment carries on the business of slaughtering, production and sales of chilled and frozen meat.
Processed meat products :	The processed meat products segment manufactures and distributes processed meat products.

The Group's CODM reviews the results of the two operating segments regularly. The decisions made regarding resources allocation and performance assessment are mainly based on the segment results.

(a) Segment results

	Chilled and frozen meat		**Processed meat products**		**Total**	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
External revenues	**28,541,508**	17,652,018	**3,773,685**	3,820,729	**32,315,193**	21,472,747
Inter-segment revenue	**1,044,961**	1,181,126	**67,294**	–	**1,112,255**	1,181,126
Reportable segment revenue	**29,586,469**	18,833,144	**3,840,979**	3,820,729	**33,427,448**	22,653,873
Depreciation and amortisation	**(332,535)**	(218,739)	**(73,069)**	(67,692)	**(405,604)**	(286,431)
Government subsidies	**593,362**	686,698	**60,210**	26,585	**653,572**	713,283
Reportable segment profit	**1,621,257**	2,323,534	**367,157**	690,194	**1,988,414**	3,013,728
Income tax expenses	**(4,116)**	(12,524)	**(95,124)**	(176,068)	**(99,240)**	(188,592)

(b) **Reconciliations of reportable segment revenue and profit**

	2011	2010
	HK$'000	*HK$'000*
Revenue		
Total revenue from reportable segments	**33,427,448**	22,653,873
Elimination of inter-segment revenue	**(1,112,255)**	(1,181,126)
Consolidated revenue	**32,315,193**	21,472,747
Profit		
Reportable segment profit	**1,988,414**	3,013,728
Elimination of inter-segment profits	**10,881**	(5,791)
Reportable segment profit derived from the Group's external customers	**1,999,295**	3,007,937
Share of losses of associates	**(299)**	(447)
Share of loss of a jointly controlled entity	**(114)**	–
Net finance costs	**(36,231)**	(47,635)
Income tax expense	**(99,532)**	(189,113)
Unallocated head office and corporate expenses	**(57,178)**	(34,013)
Consolidated profit for the year	**1,805,941**	2,736,729

4. OTHER OPERATING INCOME

	2011	2010
	HK$'000	*HK$'000*
Government subsidies	**653,572**	713,283
Recognition of negative goodwill arising on business combinations	**–**	186,137
Rental income	**24,559**	27,032
Sales of scrap	**5,230**	4,177
Sundry income	**19,951**	35,542
	703,312	966,171

5. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	2011	2010
	HK$'000	*HK$'000*
Cost of inventories	**29,530,416**	18,375,204
Depreciation	**350,807**	248,706
Loss on disposal of property, plant and equipment	**6,849**	5,290
Amortisation of lease prepayments	**59,352**	38,309
Interest on bank loans	**147,642**	140,603

6. INCOME TAX EXPENSE

Income tax expense in the consolidated income statement represents:

	2011	2010
	HK$'000	*HK$'000*
Current tax expense		
Current year	**120,927**	150,092
Under/(over)-provision in respect of prior years	**10,305**	(2,154)
	131,232	147,938
Deferred tax expense		
Origination and reversal of temporary differences	**(31,700)**	41,175
Income tax expense in the consolidated income statement	**99,532**	189,113

(a) Pursuant to the rules and regulations of Bermuda and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in Bermuda and the BVI.

(b) No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2011 and 2010.

(c) Pursuant to the income tax rules and regulations of the People's Republic of China (the "PRC"), the companies comprising the Group in the PRC are liable to PRC enterprise income tax at a rate of 25% during the years ended 31 December 2011 and 2010, except for the following:

(i) The companies comprising the Group which are foreign invested enterprises in the PRC are entitled to a tax concession period during which they are fully exempted from PRC enterprise income tax for two years starting from their first profit-making year, followed by a 50% reduction in the PRC enterprise income tax for the following three years. The tax holiday is deemed to have started from 1 January 2008, even if the companies are not yet recording profit and the unutilised tax holidays can continue until expiry.

(ii) All enterprises engaged in the primary processing of agricultural products are exempted from PRC enterprise income tax. As a result, the profits from slaughtering operations are exempted from PRC enterprise income tax for the years ended 31 December 2011 and 2010.

(iii) Pursuant to Xinzhengfa (2002) No. 29 and the investment agreement entered into with the Administration Committee of Xinjiang Shihezi Economic and Technological Development Zone ("新疆石河子市經濟技術開發區管委會"), Xinjiang Yurun Food Co., Ltd. is entitled to a tax concession period during which it is fully exempted from PRC enterprise income tax for five years starting from its first profit-making year, followed by a reduced PRC enterprise income tax at 15% for the remaining years through 2010. Xinjiang Yurun Food Co., Ltd is liable to PRC enterprise income tax at a rate of 25% starting from 2011.

(d) Under the PRC tax law, dividends received by foreign investors from its investment in foreign-invested enterprises in respect of its profits earned since 1 January 2008 are subject to withholding tax at a rate of 10% unless reduced by treaty. Pursuant to a tax arrangement between the PRC and Hong Kong, the investment holding companies established in Hong Kong are subject to a reduced withholding tax rate of 5% on dividends they receive from their PRC subsidiaries. Accordingly, deferred tax would be recognised for undistributed retained earnings of the PRC subsidiaries to the extent that the earnings would be distributed in the foreseeable future.

As at 31 December 2011, temporary differences relating to the undistributed profits of subsidiaries amounted to HK$6,399,094,000 (31 December 2010: HK$4,631,484,000). Deferred tax liabilities of HK$164,643,000 (31 December 2010: HK$54,118,000) in respect of the undistributed profits of HK$3,292,866,000 (31 December 2010: HK$1,082,365,000) were not recognised as at 31 December 2011 as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

(e) Under the PRC tax law, enterprises established outside the PRC with their de facto management bodies located within the PRC may be considered a PRC resident enterprise and subject to PRC enterprise income tax on their global income at the rate of 25%. The Group may be deemed to be a PRC resident enterprise and subject to PRC enterprise income tax rate at 25% on its global income. In certain circumstances, dividends received by a PRC resident enterprise from another PRC resident enterprise would be tax exempted, but there is no guarantee that the Group will qualify for this exemption.

7. DIVIDENDS

Dividends payable to equity holders of the Company attributable to the year

	2011	2010
	HK$'000	*HK$'000*
Interim dividend declared and paid of HK$0.22 (2010: HK$0.20) per share	**401,403**	352,831
Final dividend proposed after the balance sheet date of HK$Nil (2010: HK$0.20) per share	**–**	362,231
	401,403	715,062

8. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2011 is based on the profit attributable to equity holders of the Company for the year of HK$1,799,088,000 (2010: HK$2,728,176,000) and the weighted average number of 1,818,267,000 (2010: 1,743,531,000) shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2011 is based on the profit attributable to equity holders of the Company for the year of HK$1,799,088,000 (2010: HK$2,728,176,000) and the weighted average number of 1,826,693,000 (2010: 1,758,691,000) shares after adjusting the effect of deemed issue of shares under the Company's share option scheme.

9. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income do not have any significant tax effect for the years ended 31 December 2011 and 2010.

10. TRADE AND OTHER RECEIVABLES

	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**545,519**	569,272
Bills receivable	**12,018**	27,596
Value-added tax recoverable	**764,675**	414,354
Deposits and prepayments	**89,320**	56,905
Derivative financial instruments	**–**	23,576
Others	**54,573**	97,983
	1,466,105	1,189,686

All of the trade and other receivables are expected to be recovered within one year.

An ageing analysis of trade receivables (net of impairment losses for bad and doubtful debts) of the Group is analysed as follows:

	2011	2010
	HK$'000	*HK$'000*
Within 30 days	**381,261**	391,064
31 days to 90 days	**123,795**	105,249
91 days to 180 days	**26,584**	72,286
Over 180 days	**13,879**	673
	545,519	569,272

The Group normally allows a credit period ranging from 30 days to 90 days to its customers. Special approval from senior management is required for extension of credit terms.

11. TRADE AND OTHER PAYABLES

	2011	2010
	HK$'000	*HK$'000*
Trade payables	**902,094**	636,899
Bills payable	**6,228**	–
Receipts in advance	**263,242**	216,885
Deposits from customers	**94,470**	75,078
Salary and welfare payables	**154,039**	119,554
Value-added tax payable	**1,029**	932
Payables for acquisitions of property, plant and equipment	**731,836**	273,766
Derivative financial instruments	**1,235**	–
Other payables and accruals	**860,356**	494,007
	3,014,529	1,817,121

An ageing analysis of trade payables of the Group is analysed as follows:

	2011	2010
	HK$'000	*HK$'000*
Within 30 days	**774,476**	560,327
31 days to 90 days	**91,683**	50,414
91 days to 180 days	**21,487**	12,610
Over 180 days	**14,448**	13,548
	902,094	636,899

12. SHARE CAPITAL

On 22 April 2010 and 3 November 2010, 90,000,000 and 47,000,000 new ordinary shares of the Company at a par value of HK$0.10 each were issued at a price of HK$23.88 and HK$30.00 per share respectively. There was no new share placing during the year ended 31 December 2011.

In September 2011, the Company repurchased 1,800,000 of its own ordinary shares on The Stock Exchange of Hong Kong Limited. The repurchased shares were cancelled in October 2011 and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on the repurchase of the shares of HK$14,067,000 was charged to share premium.

During the year ended 31 December 2011, options were exercised to subscribe for 13,399,000 (2010: 937,000) new ordinary shares of the Company at a consideration of HK$99,956,000 (2010: HK$6,990,000), of which HK$1,340,000 (2010: HK$94,000) was credited to share capital and the balance of HK$98,616,000 (2010: HK$6,896,000) was credited to the share premium account. The fair value of the options exercised of HK$19,655,000 (2010: HK$1,381,000) has been transferred from retained earnings to the share premium.

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the "Annual General Meeting") be held on Wednesday, 9 May 2012. The notice of Annual General Meeting will be published and sent to the shareholders of the Company in due course.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 7 May 2012 to Wednesday, 9 May 2012, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the Annual General Meeting, unregistered holders of shares of the Company should ensure that all the share transfer documents accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 4 May 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

In 2011, the Chinese economy sustained rapid development. However, due to negative media coverage on the industry, as well as the substantial increase in raw material costs (in particular hog price), the pork product industry in China was under enormous pressure.

During the Review Year, nation-wide hog prices increased by over 48% as compared to 2010. Continuous increase in labour and production costs also brought tremendous challenges to the hog slaughtering and pork product industry in China. Due to the impact of negative media coverage over months, the business environment became extremely difficult for the Group in the second half of 2011 (especially in the fourth quarter). Facing these severe challenges, Yurun Food implemented proactive marketing strategies and rigorous cost control measures. The Company strived to restore its business and maintain its market share and ensured such short-term challenges would not have any far-reaching impact on the Group's future development. Leveraged on the Group's collective efforts, thorough implementation of internationally recognized quality control measures and diversified marketing strategies, the Board is confident that the Group's business will progressively resume and realize long-term steady growth.

During the Review Year, the hog slaughtering industry in China continued to develop systematically. Since the Central Government promulgated the "Guideline for National Hog Slaughtering Industry Development (2010-2015)" in late 2009, the Central Government has gradually eliminated domestic outdated manual and semi-mechanical hog slaughtering capacity with an aim to eliminate over 50% of the outdated capacity by 2015. As the industry structure is continually enhanced, the reform and consolidation of the slaughtering industry in China will be significantly improved and the stable and sustainable development of the industry can be reaffirmed, which will benefit the leading enterprises of the industry to sustain their long-term business growth through competitive advantages in brand building, production capacity and market allocation.

Business Review

In 2011, amidst the difficult business environment, Yurun Food's various business segments achieved relatively stable development. Chilled pork products and low temperature meat products ("LTMP"), which are of higher added value, continued to be the Group's key source of revenue.

Product Quality and R&D

It has always been Yurun Food's aim to produce products of the highest quality. Leveraging on its stringent quality control, Yurun Food was awarded the "Food Safety Model Enterprise" and the "Outstanding Contribution Enterprise" in the 9th China Food Safety Annual Conference in 2011. In future, the Group will continue to focus on developing competitive products so as to maintain its competitive advantages and consolidate its market share in the industry.

Sales and Distribution

Chilled pork and LTMP, being the Group's products with relatively higher added value, continued to play an important role in the Group's business during the Review Year. In 2011, sales of chilled pork reached HK$24.558 billion (2010: HK$15.198 billion), representing an increase of 61.6% as compared to that of last year, which accounted for 74% of total turnover before inter-segment eliminations (2010: 67%) and 83% of total turnover of the upstream business segment (2010: 81%). Sales of LTMP was HK$3.379 billion (2010: HK$3.525 billion), representing a decrease of 4.1% as compared to that of last year, which accounted for 10% of total turnover before inter-segment eliminations (2010: 16%) and 88% of total turnover of the downstream business segment (2010: 92%).

Production Facilities and Production Capacity

To enlarge its market share and satisfy the growing market demand for high quality products, the Group continued to increase its production capacity through selective acquisitions, improvements of existing production facilities and construction of new plants.

With respect to its upstream slaughtering segment, the slaughtering capacity of the Group reached 46.05 million heads per year at the end of 2011, representing an increase of 10.45 million heads as compared to that at the end of 2010. The Group will continue to expand its capacity and gradually enhance its nation-wide production capacity in the coming years and aims at reaching a slaughtering capacity of 70.00 million heads per year by 2015, so as to further strengthen its leading position in the industry and capture tremendous business opportunities arising from industry consolidation.

As at the end of 2011, the Group's annual downstream meat processing capacity was 304,000 tons. The Group will continue to expand its capacity systematically in the coming years, targeting to increase market coverage, reduce bottlenecks in productions and upgrade key production facilities. During the Review Year, the construction of the processed meat production base in Nanjing was substantially completed and operations are scheduled to begin in stages by the end of 2012, which will then increase downstream production capacity.

Financial Review

Due to the impact of continuous increase in labour and raw material costs (in particular hog price) as well as weakened consumer confidence in the industry, the business environment became extremely difficult for the Group in the second half of 2011 (especially in the fourth quarter). The Group, however, recorded a turnover of HK$32.315 billion in 2011, representing an increase of 50.5% as compared to HK$21.473 billion last year. As hog prices increased significantly, turnover of the upstream chilled and frozen pork segment (before inter-segment eliminations) increased accordingly by 57.1% as compared to HK$18.833 billion in 2010 to HK$29.586 billion in 2011.

In 2011, the Group recorded a net profit of HK$1.799 billion (2010: HK$2.728 billion), representing a decrease of approximately 34.1% as compared to that of last year. Core net profit, being profit attributable to equity holders excluding government subsidies, negative goodwill and foreign exchange gains of the Group, was HK$1.071 billion (2010: HK$1.788 billion), representing a decrease of 40.1% as compared to that of last year. Diluted earnings per share was HK$0.985, representing a decrease of 36.5% as compared to HK$1.551 of last year.

Turnover

Chilled and Frozen Pork

During the Review Year, the Group's slaughtering volume was about the same as that of last year.

In 2011, total sales generated from the upstream business (before inter-segment eliminations) increased by 57.1% to HK$29.586 billion (2010: HK$18.833 billion) as compared to that of last year. Sales of chilled pork increased by 61.6% to HK$24.558 billion (2010: HK$15.198 billion), accounting for approximately 83% (2010: 81%) of the total turnover of the upstream business. In line with the strategy of the Group, sales of frozen pork increased by 38.3% to HK$5.028 billion (2010: HK$3.635 billion), accounting for approximately 17% (2010: 19%) of the total turnover of the upstream business.

Processed Meat Products

During the Review Year, sales of processed meat products (before inter-segment eliminations) reached HK$3.841 billion (2010: HK$3.821 billion), which was approximately the same as that of last year.

During the Review Year, turnover of LTMP was HK$3.379 billion, representing a decrease of 4.1% as compared to HK$3.525 billion in 2010. LTMP remained a key revenue driver to the processed meat business, accounting for approximately 88% (2010: 92%) of the total turnover of the processed meat segment. Turnover of high temperature meat products ("HTMP") was HK$462 million (2010: HK$296 million), accounting for approximately 12% (2010: 8%) of the total turnover of the processed meat segment.

Gross Profit and Gross Profit Margin

Gross profit of the Group decreased by 10.1% from HK$3.098 billion in 2010 to HK$2.785 billion in 2011. Gross profit margin decreased by 5.8 percentage points from 14.4% in 2010 to 8.6%. The decrease in gross profit margin was mainly due to the significant increase in labour and raw material costs (in particular hog price), and the negative media coverage over months adversely affected both the reputation of the Group and market confidence in the Group's products, resulting in greater difficulty in transferring the Group's increased costs to its customers.

With respect to the upstream business, gross profit margin of chilled and frozen pork was 6.6% and 5.9% respectively (2010: 11.3% and 7.2% respectively). The overall gross profit margin of the upstream segment was 6.5%, representing a decrease of 4.0 percentage points as compared to 10.5% of last year.

With respect to downstream products, gross profit margin of LTMP was 22.6%, representing a decrease of 7.3 percentage points as compared to 29.9% of last year. Gross profit margin of HTMP was 18.6%, representing a decrease of 4.1 percentage points as compared to that of last year. Overall gross profit margin of the downstream segment was 22.1%, a decrease of 7.2 percentage points as compared to 29.3% of last year.

Other Operating Income

During the Review Year, other operating income of the Group was HK$703 million, representing a decrease of 27.2% as compared to HK$966 million in 2010. Other operating income mainly included government subsidies and negative goodwill. Government subsidies which was recognized on the basis of the confirmation letter from the relevant government authorities and was already received in cash amounted to HK$654 million (2010: HK$713 million). No negative goodwill was recognized during the Review Year. Negative goodwill was HK$186 million in 2010.

Operating Expenses

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Year, operating expenses of the Group were HK$1.546 billion, representing an increase of 41.9% as compared to HK$1.090 billion in 2010. Operating expenses represented 4.8% of the Group's turnover, a decrease of 0.3 percentage point as compared to 5.1% of last year.

Operating Profit

In 2011, operating profit of the Group was HK$1.942 billion, representing a decrease of 34.7% as compared to HK$2.974 billion of last year.

Net Finance Costs

Net finance costs of the Group was HK$36 million in 2011, representing a decrease of 23.9% as compared to HK$48 million in 2010. The decrease in net finance costs was mainly due to the increase in foreign exchange gain.

Income Tax

The total income tax for the year ended 31 December 2011 was HK$100 million, representing a decrease of 47.4% as compared to HK$189 million of last year. Effective tax rate for the year was 5.2%, representing a decrease of 1.3 percentage points as compared to 6.5% in 2010.

Net Profit

Taking into account of all the above factors, net profit of the Group decreased by approximately 34.1% from HK$2.728 billion in 2010 to HK$1.799 billion in 2011. Net profit margin for the Review Year was 5.6%, representing a decrease of 7.1 percentage points as compared to 12.7% of last year. Core net profit of the Group, being profit attributable to equity holders excluding government subsidies, negative goodwill and foreign exchange gains, was HK$1.071 billion (2010: HK$1.788 billion), a decrease of 40.1% as compared to that of last year. Net core profit margin was 3.3% during the Review Year, representing a decrease of 5.0 percentage points as compared to 8.3% of last year.

Financial Resources

The major financial resources of the Group were cash inflow generated from operating activities during the Review Year. The Group's net cash inflow from operating activities in 2011 amounted to HK$2.272 billion (2010: HK$2.986 billion) with a cash balance including time deposits and pledged deposits of HK$5.338 billion as at 31 December 2011, representing a decrease of HK$1.013 billion as compared to HK$6.351 billion as at 31 December 2010.

As at 31 December 2011, the Group had an outstanding loan of HK$5.926 billion, representing an increase of HK$2.245 billion from HK$3.681 billion as at the end of 2010. HK$5.141 billion (2010: HK$3.151 billion) of our borrowings was classified as repayable within one year and 89.7% (2010: 90.5%) of our borrowings was denominated in Renminbi ("RMB"). The fixed rate debt ratio of the Group was 40.3% (2010: 63.8%) as at 31 December 2011. Taking into account of funds used for strategic acquisitions and investments in production facilities during the Review Year, the Group was still able to maintain prudent financial management and retain sufficient working capital for daily operating activities and other funding requirements. In addition, the Group possessed a steady and abundant operating cash flow and appropriate financing arrangements were made to satisfy the needs of debt repayment, if any, and capital expenditure.

Assets and Liabilities

As at 31 December 2011, the total assets and total liabilities of the Group were HK$25.479 billion (2010: HK$20.361 billion) and HK$9.307 billion (2010: HK$5.878 billion) respectively, representing an increase of HK$5.118 billion and HK$3.429 billion as compared to those as at 31 December 2010 respectively.

As at 31 December 2011, property, plant and equipment of the Group amounted to HK$12.635 billion (2010: HK$8.037 billion), representing an increase of HK$4.598 billion as compared to that as at 31 December 2010. Property, plant and equipment comprised construction in progress amounted to HK$4.239 billion (2010: HK$1.928 billion), of which no depreciation was provided for during the Review Year.

Lease prepayment of the Group as at 31 December 2011 amounted to HK$3.353 billion (2010: HK$2.207 billion). This represented the acquisition cost of land use rights, which was amortised on a straight-line basis over the respective periods of the land use rights.

Non-current prepayments of the Group represented prepayments for acquisitions of land use rights and property, plant and equipment. As at 31 December 2011, such prepayments amounted to HK$852 million (2010: HK$953 million).

As at 31 December 2011, equity attributable to equity holders of the Company was HK$16.109 billion, representing an increase of HK$1.672 billion as compared to HK$14.437 billion as at 31 December 2010.

As at 31 December 2011, the gearing ratio (total debt represented by the sum of bank loans and finance lease liabilities divided by the sum of total debt and equity attributable to shareholders) of the Group was 27.5%, representing an increase of 6.4 percentage points as compared to 21.1% as at 31 December 2010. As at 31 December 2011, excluding cash, time deposits and pledged deposits, the gearing ratio of the Group was 3.4%. As at 31 December 2010, the Group was in net cash position.

Charges on Assets

As at 31 December 2011, certain properties and construction in progress of the Group with a carrying amount of HK$128 million, and lease prepayments of the Group with a carrying amount of HK$292 million (2010: HK$44.76 million and HK$31.95 million respectively) were pledged against certain bank loans with a total amount of HK$730 million (2010: HK$80.87 million).

Secured bank loans of the Group as at 31 December 2011 totalling HK$116 million (2010: HK$Nil) were secured by pledged deposits denominated in RMB equivalent to HK$131 million.

As at 31 December 2011, the bills payable and derivative financial instruments were secured by pledged deposits denominated in RMB amounting to HK$6.23 million (2010: HK$Nil) and HK$41.71 million (2010: HK$66.65 million) respectively.

As at 31 December 2011, the Group had no intra-group bills payable. As at 31 December 2010, intra-group bills payable totalling HK$379 million were secured by pledged deposits amounting to HK$161 million. The corresponding intra-group bills receivable totalling HK$379 million were discounted with recourse for proceeds of HK$377 million.

Significant Investment, Material Acquisition and Disposals of Subsidiaries, Future Plans for Material Investments or Acquisition of Capital Assets

The preliminary capital expenditure plan for 2012 approved by the Board amounted to approximately HK$1.5 billion. As at the date of this announcement, the budget and plan are yet to be finalised and the Group has not at this stage identified any particular targets or opportunities. Save as disclosed herein, the Group did not hold any other substantial investment or have any substantial acquisition and sale of subsidiaries during the Review Year. As at the date of this announcement, the Group has no plan to make any substantial investment in or acquisition of capital assets.

Contingent Liabilities

There were no significant contingent liabilities for the Group as at 31 December 2011.

Exposure to Fluctuations in Exchange Rates and Related Hedges

Other than purchases of certain equipment and materials and payment of certain professional fees in United States dollars, Euro dollars or Hong Kong dollars, the Group's transactions are mainly settled in RMB. The functional currency of operating subsidiaries of the Group in the PRC is RMB, which is not freely convertible into foreign currencies. The Group has entered into Euro foreign exchange forward contracts. The Group will monitor its exposure by considering factors including, but not limited to, exchange rate movement of the relevant foreign exchange currencies as well as the Group's cash flow requirements to ensure that its foreign exchange exposure is kept at an acceptable level.

Human Resources

As at 31 December 2011, the Group had approximately 27,000 (2010: 21,200) employees in the PRC and Hong Kong. During the Review Year, total staff cost was HK$852 million (2010: HK$598 million), accounting for 2.6% (2010: 2.8%) of the turnover of the Group.

The Group offered competitive remunerations and other employee benefits including contributions to social security schemes such as retirement benefits scheme. In line with the industry and market practice, the Group also offered performance-based bonus and a share option scheme to encourage and reward employees to contribute in terms of innovation and improvement. In addition, the Group allocated resources for providing continuing education and training for management and employees so as to improve their skills and knowledge.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has fully complied with all applicable code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the Review Year.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code") as the Company's code of conduct and rules governing dealings by all directors of the Company in the securities of the Company. The Company, having made specific enquiry of all directors of the Company, confirms that the directors have complied with the required standards set out in the Model Code throughout the Review Year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Review Year, the Company repurchased a total of 1,800,000 ordinary shares of HK$0.10 each on the Stock Exchange in September 2011 at an aggregate consideration of HK$14,247,021, and such shares were subsequently cancelled by the Company. The highest price paid per share was HK$8.12 and the lowest price paid per share was HK$7.55. The Board considered the repurchases were in the interests of the Company and its shareholders as a whole.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Review Year.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the annual results for the year ended 31 December 2011.

PUBLICATION OF ANNUAL RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the Company's and the Stock Exchange's websites. The Company's annual report for the year ended 31 December 2011 in accordance with the relevant requirements of the Listing Rules will be dispatched to shareholders and published on the Company's and the Stock Exchange's websites in due course.

By Order of the Board
Zhu Yicai
Chairman

Hong Kong, 9 March 2012

As at the date of this announcement, the executive directors of the Company are Zhu Yicai, Zhu Yiliang, Feng Kuande, Ge Yuqi and Yu Zhangli; the non-executive directors are Jiao Shuge (alias Jiao Zhen), Wang Kaitian and Li Chenghua; and the independent non-executive directors are Gao Hui, Qiao Jun and Chen Jianguo.

* *For identification purposes only*